

Department of Budget and Management
Office of the Secretary
Fiscal Year 2005 Operating Budget

Senate Budget & Taxation Committee – February 19, 2004
The Honorable Ulysses Currie, Chair

House Appropriations Committee – February 20, 2004
The Honorable Norman H. Conway, Chair

INTRODUCTION

The Department of Budget and Management (DBM) appreciates this opportunity to update you on the activities of the Department and to respond to the issues raised and recommendations contained in the analysis prepared by the Department of Legislative Services (DLS).

This document contains the following information:

- The Department's key accomplishments of the past year;
- The Department's response to the DLS recommendations; and
- Responses to other issues and updates addressed in the DLS analysis.

KEY ACCOMPLISHMENTS

- Thorough review of each agency's budget top to bottom three times: with the transition team developing the fiscal year 2004 budget, formulating mid-year spending reductions in the spring and summer, and preparing the FY 2005 budget.
- Revision of the capital budget and five-year plan to recognize a lower level of total funding, while redirecting resources to long-neglected areas such as correctional and mental health facilities.
- Providing procurement assistance for State agencies to assure more efficient purchases and compliance with the Procurement Law.

Plans for FY 2005

- **Focused Analysis:** The Office of Budget Analysis will concentrate its efforts on the functions that comprise 92% of general fund spending: education, health and public safety.

- **Managing for Results:** The Department will improve the strategic planning and performance measurement processes to make Managing for Results more useful and less burdensome.
- **Implement Recommendations:** The Department will implement various improvements in the delivery of State services that have been recommended by the Commission on State Government Structure and Efficiency and the Procurement Task Force.
- **Efficiency Improvement:** The Department hopes to provide auditing and consulting services for agencies that come to us with good ideas for saving money or generating revenue.

RESPONSE TO DLS RECOMMENDATIONS

Summary of DBM Positions

DLS Recommendation	Amount	DBM Position	Comment
1. Limit funds expended for salary of Acting Secretaries		Oppose	Unintended consequences.
2. Restrict payments for salaries of Acting Secretary rejected by Senate		Amend	DLS language is unclear. Statutory change may be preferable to budget bill language.
3. Executive pay Plan Reports		Neutral	
4. 25% "Big Stick"		Neutral	
5. Subsidiary control ledger for Workers' Compensation transactions		Neutral	
6. Report on Homeland Security Expenditures		Neutral	
7. Withdraws Secretary's opportunity to redirect excess funds in statewide subobjects		Oppose	Removes a management tool and increases potential for deficiency appropriation requirements.
8. Specifies that all across-the-board reductions apply to all higher education institutions		Neutral	
9. Deletes allotment authority and authority of Secretary to control positions		Oppose	Limits state's fiscal control, ability to respond to shortfalls, and to enforce legislative intent.
10. Turnover expectancy	\$130,000	Concur	
11. Management and accounting services	\$750,000	Modify	Accept \$250,000 reduction.

DEPARTMENT OF BUDGET & MANAGEMENT RESPONSES

DLS Recommendation 1: Limit funds expended for salary of Acting Secretaries

DBM Response: Oppose. DBM believes that there are many cases where it is appropriate to pay an individual as an acting secretary in excess of 60 days. The most common is when a new secretary is appointed while the legislature is not in session. Until confirmed, a new appointee is legally an “Acting Secretary.” In the normal course of business, Secretaries appointed in the interim are “Acting” for up to nine months. Secondly, there are many occasions when a search for a permanent secretary requires more than two months. Finally, although rare at the top executive level, there are circumstances where an employee may be temporarily unable to fulfill their duties, and require someone to act in their place for more than two months. This could include medical leave, family leave or military leave.

DBM suggests that the committees reject this recommendation.

DLS Recommendation 2: Restrict payments for salaries of acting secretary rejected by Senate

DBM Response: Neutral, amendments suggested. DBM believes that this language is unnecessary, but has no objection to this concept. However, the proposed language is ambiguous. It could be read to prohibit the expenditure of funds to pay any individual in the position of acting Secretary after a nominee has been rejected. In addition, this restriction should be considered for codification

DLS Recommendation 3: Executive Pay Plan Reports

DBM Response: Neutral

DLS Recommendation 4: 25% “Big Stick”

DBM Response: Neutral

DLS Recommendation 5: Subsidiary control ledger for Workers’ Compensation transactions

DBM Response: Neutral

DLS Recommendation 6: Report on Homeland Security Expenditures

DBM Response: Neutral

DBM Recommendation 7: Withdraws Secretary's opportunity to redirect excess funds in statewide subobjects

DBM Response: Oppose. For a number of years, funds budgeted for employees' health, retirees' health and Workers' Compensation insurance have been restricted: agency heads are not permitted to use them except for the specified purposes. The Budget Secretary has had the authority to grant exceptions and allow surplus funds to be redirected. This authority has been used in agencies such as the Department of Health and Mental Hygiene and Department of Public Safety and Correctional Services, to be able to close budgets without a deficiency appropriation in years where some expense (e.g., overtime) is exceeding the appropriation, but health insurance is under budget. DBM respectfully requests that this tool be restored for limited and appropriate usage.

DLS Recommendation 8: Specifies that all across-the-board reductions apply to all higher education institutions

DBM Response: Neutral

DLS Recommendation 9: Deletes allotment authority and authority of Secretary to control positions.

DBM Response: Oppose. This section provides the legal authority for a number of routine business and financial management processes, as well as a mechanism to address fiscal shortfalls. The withheld allotment authority is most commonly used each year to prevent the expenditure of funds restricted by the General Assembly in budget bill language. More rarely, it provides the state with a means of controlling expenditures temporarily pending Board of Public Works or legislative action.

Elimination of the authority to withhold allotments would divest the Governor of one of the tools critical to addressing difficult fiscal problems. It was extremely helpful in permitting a more thoughtful approach to ultimate budget reductions submitted to the Board of Public Works. This type of management tool is viewed favorably by the rating agencies and prevents more draconian reductions. Thoughtful consideration should be encouraged not discouraged.

The language authorizing the Secretary to "fix the number and classifications of positions" clearly places position control authority with the Secretary of Budget and Management. Without this authority, agencies could potentially place employees on the payroll and alter their classifications without any central management.

DLS Recommendation 10: Reduce turnover expectance \$130,000.

DBM Response: Concur.

DLS Recommendation 11: Reduce management and accounting services \$750,000

DBM Response: Accept \$250,000 reduction. We agree that this initiative is a new idea in Maryland and that our experience in the use of these funds is somewhat limited. However, there are a number of areas we have already identified where audit and consulting services could easily return several times its value. Some possible examples include Juvenile Services community services contracts and Human Resources eligibility determination, foster care provider payments, improvement in procurement processes, mental health payments, foster care payments, grant and contract management in a variety of agencies, and improvements in inspection, licensing and billing processes.

The State should have resources available to explore and implement cost-savings ideas even if these ideas were not contemplated when the budget was considered.

The reports of the legislative auditor provide many examples of areas where state agencies have insufficient staff to do extensive auditing and monitoring. While DBM believes that the \$1 million proposed would be used productively and will result in very significant savings, we will accept a \$250,000 reduction. We believe that this will be sufficient to execute between five and ten projects in fiscal year 2005.

ISSUES/UPDATES

MANAGING FOR RESULTS

DLS Recommendation 1: DBM should present its plan for making MFR a more valuable tool for the General Assembly, other policymakers and administrators.

DBM Response: The State's experiences over the past seven years and the recent legislative audit have identified a number of weaknesses in Maryland's MFR process. The process is highly labor-intensive for the operating agencies of government. It produces more measures than can be absorbed by top-level policymakers, and more than our agencies can gather and report on a valid and reliable basis. Because it is a bottom-up process, objectives are not always focused on the State's strategic priorities. MFR's linkage to the budget decision process is not explicit and documented.

The Department plans to review the MFR process with a goal of streamlining the MFR process while enhancing its use as a management and budgeting tool. We will update the statewide strategic plan to reflect the policies and priorities of the Ehrlich-Steele administration. The Department will work with agencies to reduce the number of

measures and goals and objectives in MFR presentations in the budget and will concentrate its efforts on the agencies that consume the most general fund resources.

The Department is currently compiling data for a performance report for FY 2003. The report will evaluate the success of State agencies in achieving objectives for the State's key goals in such areas as education, the environment, public safety, health, commerce and jobs. The Department also plans to prepare a performance report for FY 2004 that will be available to the General Assembly in early 2005. These performance reports and anticipated streamlining should make MFR more valuable to policymakers.

DLS Recommendation 2: DLS requests DBM submit an example of the additional performance reports it intends to provide that will permit legislative review of agency performance during the legislative session.

DBM Response: Attachment 1 shows the basic format to be used for the performance reports to be developed. The heart of each report would be a presentation of historical performance data for key objectives from the State Strategic plan and a discussion of whether the objective is being achieved. Summaries of the results from the objectives for each goal will then be written to characterize the extent to which the State has made progress in achieving each statewide goal.

DLS Recommendation 3: DBM should demonstrate that it has developed procedures to ensure that strategic planning and results information are used when agencies formulate and present their budget request, using specific examples. DBM is also asked to submit evidence that it has used these strategic plans and results information in making its budget decisions.

DBM Response: DBM incorporates Managing for Results goals, objectives, and results data routinely into its structured analysis process. For budget enhancement requests, agencies must submit descriptions of how the request supports Managing for Results goals and what outcomes will result from the request and how measures of these outcomes are expected to improve. We have examples of agency use of such information from the FY 2005 budget cycle as well as the template for such requests.

DBM uses such information along with other budgetary factors to make budget recommendations. DBM analysts follow prescribed "Quality Analysis Criteria" to consider budget requests in the light of MFR goals and objectives and results data as well as other budgetary factors, in making their recommendations. DBM cannot provide documentary evidence of exactly how the various factors come together in the Governor's decision-making process. However, DBM is willing to share with the DLS analyst, in confidence, some examples of the many recommendations made by analysts

from the FY 2003 and FY 2004 budget cycles. These not only apply MFR information to budget enhancement requests, but also consider whether any proposed reduction to the baseline budget would affect any MFR goal, objective, or outcome.

DBM will consider the use of specific agency performance agreements in FY 2006 budget initiatives.

ATTACHMENT 1

DRAFT

Goal 2: Maryland Citizens Working in Quality Jobs

There are two key performance areas for this goal: **Improving Education and Training** and **Economic Development and Growth**

Key Performance Area: Improved Education and Training

There are several components to this performance area:

Children Ready to Learn
Children Successful in School
Children Completing School
Schools that Promote a High Level of Learning;
Producing an Educated and Skilled Workforce
Expanding Access to Higher Education.

Children Ready to Learn

Objective 2.1 By 2005 60% of children entering kindergarten will be rated fully ready to learn.

		2001	2002	2003	2003
		Actual	Actual	Estimated	Actual
Outcome Measures:	Percentage of children entering kindergarten rated as "fully ready" ("Fully ready " means students consistently demonstrate skills, behaviors, and abilities that are needed to successfully meet kindergarten expectations in seven developmental and curricular domains.)	40.1%	49.0%	50.0%	52.0%

Discussion

Maryland has shown steady progress over the past several years in increasing the number of children entering kindergarten "ready to learn." The substantial nine-point gain achieved in FY 2002 did much to close the gap between the performance level of FY

Attachment 1 (Continued)

2001 and the FY 2005 target of 60%. The reported performance level for this measure exceeded the level estimated for FY 2003. However, significant progress will have to continue in FY 2004 and FY 2005 if the FY 2005 target of 60% is to be achieved.

Goal 1: Maryland Citizens Raising a Family in a Healthy Environment Protected by Well-Managed Growth

Water Quality

Objective 1.6 To achieve 99% significant compliance with discharge permit effluent limitations for all inspected surface water (state and NPDES permitted sites/facilities).

	2000 Actual	2001 Actual	2002 Actual	2003 Estimated	2003 Actual
Outcome Measure: Percentage of inspected surface water discharge sites/ facilities (state and NPDES) in significant compliance	93%	98%	98%	99%	99.8%

NPDES =National Pollutant Discharge Elimination System

Discussion

This objective addresses water quality by setting targets for compliance with water quality permits issued either under State authority or as part of the National Pollutant Discharge Elimination System. These permits set limits on effluents from industrial activity, municipal wastewater systems, and certain agricultural activities and from storm water runoff from industrial, municipal, and agricultural activities. Reducing the discharge of pollutants from surface water sites to permitted levels is one of the key strategies that the State uses to improve water quality. In FY 2003 the State achieved the target in this objective for inspected sites and facilities. This level represents a notable improvement since FY 2000 when only 93% of inspected sites were in significant compliance. This level of performance was achieved by inspecting 1,699 sites among the 2,823 permits or licenses in effect that year.

